



**Environment  
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**TESTIMONY OF ENVIRONMENT NORTHEAST  
TO THE ENERGY AND TECHNOLOGY COMMITTEE  
ON BILL NOS. 587, 588, 590, 591, 5817 AND 5818**

Rockport, ME  
Portland, ME  
Boston, MA  
Providence, RI  
New Haven, CT  
Charlottetown, PEI, Canada

**March 7, 2008**

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Environment Northeast (ENE) is a non-profit research and advocacy organization that focuses on energy, air quality and climate change solutions for New England and Eastern Canada. ENE appreciates the opportunity to provide testimony to the Energy and Technology Committee.

**S.B. No. 587 – An Act Concerning Electric and Gas Conservation Incentives**

This bill would require the Department of Public Utility Control (DPUC) to order the electric distribution companies to decouple distribution revenues from electric sales by December 31, 2009 through rate design changes which increase the revenue recovered through fixed distribution charges. Since energy (kWh) and demand (kW) charges vary according to the usage of these commodities, this would effectively mean substantial increases in customer charges. With respect to gas distribution companies, the bill would require revenues to be decoupled from sales either through rate design changes or a sales adjustment clause.

Decoupling is a critical component in ensuring that the state's electric and gas companies can aggressively implement the legislative direction in Public Act No. 07-242 to capture all cost-effective efficiency and demand reduction resources. The purpose of decoupling is to sever the link between distribution revenues and sales volumes so that the utility's incentives are aligned with customers and they do not face financial disincentives to reducing customer usage and costs.

This bill was evidently prompted by the DPUC's decision relative to Sec. 107 of P.A No. 07-242 which required it to order decoupling in any rate case through one or more of the following strategies: (1) A mechanism that adjusts actual distribution revenues to allowed distribution revenues, (2) rate design changes that increase the amount of revenue recovered through fixed distribution charges, or (3) a sales adjustment clause. In the recent CL&P rate case, Docket No. 07-07-01, the DPUC calculated that residential customer charges would have to be increased to an average of \$42 per month from the previous \$10 per month charge in order to decouple residential rates solely through rate design changes. Recognizing, as does ENE, that quadrupling this charge was wholly impractical, the Department's only action was to increase the residential customer charge from \$10 to \$15 per month. This change is obviously inadequate to decouple residential revenues from sales as directed by the legislature. In addition, no orders were entered with respect to decoupling commercial/industrial distribution revenues, which are predominantly collected through demand charges, and the DPUC did not utilize either of the other two options in the statute which would have far less impact on customers than would raising customer charges.

Although rate design changes can somewhat reduce the variations in distribution revenue collections, it is evident that they cannot be expected to decouple revenues from sales. Significant

increases in customer charges should be avoided because they reduce customer incentives to conserve and are unfair to low use customers. Commercial/industrial distribution revenues are primarily collected through demand charges which are based on peak usage. Given the concern with minimizing peak demands, it would not be appropriate to shift revenue collection from demand to customer charges, as would be required to pursue decoupling through rate design. On the residential side, the shift required would reduce energy charges and increase customer charges. The current distribution energy charges appropriately impose higher costs on those customers who place greater stress on the system through their consumption. And, as discussed above, residential customer charges would have to be increased dramatically to decouple revenues from sales.

The most efficient and least disruptive approach to implementing decoupling is to annually adjust actual distribution revenues to the levels allowed in a rate case decision. This is the approach used in the state that has had decoupling for the longest period - California - and has recently been adopted in Maryland and the District of Columbia and ordered in New York. CL&P proposed, and ENE supported, such a mechanism in the rate case, but it was not adopted by the DPUC. The record indicated that the direct impact of such a mechanism on customers would be quite modest. The largest impact would have been in 2006 when sales fell by 5%, which was the largest amount in over 25 years. The adjustment charge would have been about 0.5 mills/kWh. In more normal years, the adjustment would have been about 0.1 to 0.2 mills. It could be a charge or a credit, depending on whether revenues exceeded or fell short of those allowed. A sales adjustment clause would produce similar results, but would be more complicated because of the need to separately track energy and demand sales.

ENE recommends that the bill be amended to require the DPUC to order the gas and electric companies to fully decouple distribution revenues from sales within the proposed time frame utilizing a mechanism that adjusts actual distribution revenues to allowed distribution revenues. The Department regularly makes rate design changes for various reasons and could continue to do so without further authorization. However, it could not reasonably achieve decoupling through rate design changes alone.

#### SB No. 588 – An Act Establishing a Cap and Trade Program for Emissions Trading

There is an existing regional cap and trade program for carbon (Regional Greenhouse Gas Initiative) and federal cap and trade programs for sulfur dioxide and nitrogen oxides. ENE is not clear as to what pollutants this proposal would cover.

#### SB No. 590 – An Act Concerning Renewable Energy

This bill would authorize expanding Project 100 by an additional 100 MW. ENE believes that the most cost-effective and productive approach to developing renewable generation is to pursue long-term contracts for energy and renewable energy certificates (RECs) in the region. These options are being explored pursuant to Secs. 71 and 51 of Public Act 07-242 which authorize a DPUC study of long-term REC purchases and the energy resource procurement plan.

#### SB No. 591 – An Act Concerning Low-Interest Loans to State Residents for Energy Efficient Home Improvements

This bill would authorize an expansion of the existing Energy Conservation Loan Fund for the purposes of financing energy efficiency improvements for residences in the state, including increasing

the bonding authority by \$20 million. ENE supports this proposal as it addresses an important limitation on the ability of many state residents to reduce their energy consumption. As drafted, the bill requires the commissioner to provide for the maximum feasible availability of loans, but does not place any income limits on the homeowners who could obtain loans under the new subsection 2 (f). In order to insure that low cost financing is directed to those who need the assistance, ENE recommends the addition of income limits such as those set forth in Subsection 2.

#### HB No. 5817 – An Act Concerning Resource Recovery Facilities

This bill would authorize the Connecticut Municipal Electric Energy Cooperative (CMEEC) to serve as the energy purchasing and efficiency programs manager to provide consolidated purchasing of electricity and the deployment of efficiency and load management services to designated senior citizens, low income residential customers and governmental entities in the State. Providing electricity purchasing services and deploying demand side resources to customers located across the state require vastly different delivery systems. Electricity purchasing requires sophisticated energy contracting skills, but does not involve an assessment of how a consumer's energy consumption can be reduced. The administrative costs of developing programs to provide services to widely dispersed customers would be substantial and unnecessary. The existing programs operated by CL&P, UI and CMEEC have proven to be highly effective and should continue to provide demand side services to these customers.

#### HB No. 5818 – An Act Concerning the Summer Saver Rewards Program

This bill would authorize a Summer Saver Program for 2008 that is similar to that conducted in 2007 and expand it to include municipalities. The total cost of this program for 2007 was about \$15 million. While it likely heightened awareness of the value of saving electricity, there has been no assessment as to whether the value of savings that could be attributed to the program was commensurate with the cost. In 2008, the DPUC will be implementing a marketing plan for educating consumers about the benefits of using energy more efficiently and reducing peak consumption. This plan was developed and funded in response to several directives in Public Act No. 07-242. The details of the plan were approved in Docket No. 07-06-60. Planned activities include a specific Summer Campaign to promote the benefits of reducing peak demand and a real-time alert system to advise customers of potential capacity deficiencies. In view of this activity, ENE recommends deferring any Summer Saver program until the costs and results of the marketing effort can be compared to those of the Summer Saver program.

